Audit's
MONTHLY NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS
Realty Trust Review

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TRUST SHARES FOR YOUR ATTENTION

INDUSTRY NEWS AND STATISTICS

INTRODUCING A NEW VIEW OF THE REALTY TRUSTS

We have sent to the printer a 28-page booklet which we believe will serve the needs of subscribers and many other observers of the real estate investment trusts. The booklet, titled *Understanding Realty Trusts - and Directory of 101 Trusts*, is geared to fill two basic needs which account for the vast majority of inquiries crossing our desk.

The first need is for a basic introduction to real estate trust securities as an investment. Here we have prepared our answers to the most frequently answered questions about trusts. The answers are based upon the experience and judgements from over 2½ years of intensive analytical coverage of the trusts. The basic list of questions is the same as included in a previous booklet distributed to original subscribers; the answers have been updated to reflect the experience of the last year.

The second need has been for a directory of trusts themselves, a frequent need when industries are expanding rapidly. Here we have classified 101 trusts as either primarily equity or mortgage trusts, and then listed the trust, names and addresses and phone numbers of key officers and advisers. Investors may use it to write for financial reports from trusts they are considering, while a broad cross-section of the financial, mortgage and real estate community can use the list to contact possible fund sources.

We have put all this in a pocket-sized booklet you can carry with you for reference. Individual copies will be $4, including postage and handling, while quantity rates are available to organizations who may wish to give wider distribution to the booklet.

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YEAR OF THE CONVERTIBLE: SPOTTING THE BEST OFFERINGS

Real estate trusts are taking advantage of the relatively relaxed credit markets to build their capital bases. And convertible debentures are proving the most popular route for expansion, although some trusts are selling shares outright. So far trusts have sold $163 million of convertibles this year, a total that includes a $75 million offering last week by *Connecticut General Mortgage and Realty Investments*. That's well above the total for all of 1970 and already establishes 1971 as "The Year of the Convert."

But convertibles for trusts have taken on a entirely different hue than for industrials. The big distinguishing feature is that trust convertibles usually carry a lower interest coupon than investors could get by buying the shares directly. Thus the trusts have had to turn to a variety of sweeteners--mainly warrants--to sell their convertibles. But the sweeteners have turned the convertible issue game into a welter of confusion for investors. For already this year the trusts have pioneered such non-standard items as contingent interest coupons, optional redemption plans, and receipt of shares in lieu of cash interest payments.

Judging from the comments we hear from professionals, this has given real estate trust convertibles--and indeed all securities of the trusts--the appearance of a gimmick-a-week freak show, an amusing place to visit but not a nice place for tidy and traditional investing. It's all so horribly complex, they are saying, that the poor investor is lost before he reaches the fourth whereas. Their advice: keep it simple.

But the convertibles keep coming; Connecticut General sold $75 million worth last week and *Chase Manhattan Trust* is scheduled to offer $50 million this week. So the best thing investors can do is settle in to do their homework on the new converts and assess their impact upon trusts whose shares they may hold.

We believe there are three basic tests to apply in sizing up the impact of any new offering, including convertibles, upon a trust. And once these three are clearly understood, anyone can size up an offering rather quickly. The trio:

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1. Figure the premium (or discount) from fully converted book value per share before the offering. From our major study, *Mortgage Trusts: Lenders With a Plus* and events of the past two years, we have concluded that this is the most important single variable in new trust financings. A look at the record will show how ability to sell new shares (either directly or through convertibles) was absolutely essential to growth of the two oldest and most successful mortgage trusts. Here's how *Continental Mortgage Investors* and *First Mortgage Investors* have done it:

Date	Sold	Bk. Val. Before	Sale or Conv. Pr.	Premium Over Bk.
	Continental Mortgage Investors			
5/64	Shares & straight debt	$2.29	$2.53	10.5%
12/65	" " "	2.32	5.35	130.6
12/67	" " "	2.66	5.70	114.3
2/69	Convert. deben. (priv.)	2.90	20.13	594.1
	First Mortgage Investors			
10/64	Convertibles	8.35	10.30	23.4
6/68	"	8.88	11.25	26.7
10/68	"	8.95	17.50	95.5

Translated, this means that both Continental and First in their early years were able to sell new shares at generally rising premiums over book value. In essence this is the secret of their leveraging success. Continental, for instance, sold early packages of straight debt and shares, later shifting to converts. First employed very small amounts of converts initially, never increasing total book value very much.

And here's an interesting historical note: most of these sales were made at small discounts from market prices of the shares. In other words, the crucial comparison is with book value per share, not market price.

On page 4 we have tabulated all major convertible and stock sales by trusts in 1970 and to date for 1971. The tally turns up some interesting comparisions. *General Mortgage's* offering last December is the only one that actually diluted book value, and that was caused by a last minute change in market conditions. All but three of the 1970 offerings were at premiums under 15%. Two of the highest premiums were by Continental and First, expectably, but the third was a rare sale by *Great American Mortgage Investors* at a 95.8% premium over book value. This was an exceptional first-time financing by a new trust and is one major reason we have included GAMI shares in our model portfolio.

With money easing during the early part of this year, premiums have generally risen to the 25-50% range. Even the huge Connecticut General offering last week fell only slightly above at 57.6%, although ConnGen did not have to give up warrants.

Calculating this premium for new offerings as they come along is a relatively easy job for RTR subscribers. When the offering is sold, the formal tombstone advertisement in The Wall Street Journal will show the conversion price. Simply divide this price by the fully converted book value shown in your Comparative Trust Statistics.

And you can estimate the premium for future offerings easily, using the Statistics section. Since the conversion price will approximate market price, the current percentage by which price exceeds book value (shown for all issues in Statistics) will give an estimate for the premium in upcoming sales. For instance, at this writing the scheduled Chase Manhattan offering should come at about a 90% premium over book.

2. Figure the increase in shares outstanding. Once you know the relation of the respective book values, you want to measure the growth in the number of shares outstanding. And that increase can come immediately--i.e., by sale of shares directly--or in the future, either through conversion of debentures or through exercise of warrants.

When shares are sold directly, there's no problem in figuring the percentage increase in shares. If convertibles are issued, simply divide the principal amount by the exercise price to find out the number of shares reserved for conversion. This number is always given in a footnote to the Capitalization section of the prospectus accompanying the debentures. If warrants are issued, assume they all will be exercised at some future date.

In the table on page 5, we have related the present and potential increase in shares to the number of shares outstanding or potentially outstanding through prior convertibles, warrants and stock options. The resulting number indicates that most trust issues in the past two years have postponed the actual issuance of shares to some future date. The increases in shares outstanding range all the way up to the potential 160.9% increase for Galbreath Mortgage.

THREE VIEWS OF

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BY PREMIUM OVER BOOK VALUE

	Date	Cv.Deb. (Mil.)	Wts. (000)	Bk. Val.	--Effective Price-- Conv.	Wts.	Sh.	-Price as % of Bk.- Conv.	Wts	Sh.
1970										
Alison Mtg.	12/18	$10.0	150	$18.51	$19.00	$19.00	--	2.6%	2.6%	---
Amer. Cent.	4/16	20.0	400	18.40	21.00	23.00	--	14.1	25.0	---
Assoc. Mtg.	10/7	10.0	100	21.71	---	28.25	--	--	30.1	---
Cont. Mtg.	2/18	80.0	---	6.88c	22.25	---	--	223.4	--	---
Fidelity Mt.	12/17	21.6	173	19.25	21.25	---	--	10.4	15.6	---
First Mtg.	1/22	35.0	---	13.14c	24.00	---	--	82.6	--	---
First Union	4/7		---	9.24	---	---	11.00	--	--	19.0
General Mtg.	11/19	5.0	150	13.84	10.50	11.75	--	-24.1	-15.1	---
Grt. Amer.	11/5	26.0	208	10.22	20.00	20.00	--	95.8	95.8	---
Guardian Mtg.	2/24	20.0	---	22.95	25.00	---	25.00	8.9	--	8.9
Republic Mtg.	12/10	15.0	248	18.32	19.00	20.00	--	3.7	9.2	---
1971										
Atico Mtg.	5/4	$18.0	360	$14.11	$21.00	$21.00	--	48.8%	48.8%	---
ConnGen Mtg.	5/19	75.0	---	20.62	32.50	---	--	57.6	--	---
Denver REIA	5/12	--	165	9.82	--	11.00	--	--	--	12.0
Galbreath Mtg.	1/19	15.0	600	22.88	28.50	30.00a	--	24.6	31.1	---
Midland Mtg.	4/6	15.0	---	11.74	16.67	---	b	42.0	--	49.1%b
National MF	4/6	8.0	---	9.78	12.00	---	11.00	22.7	--	12.5
No.Amer.Mtg.	5/4	--	---	13.44	---	---	26.75	--	--	99.0
Saul (B.F.)	1/7	17.0	---	10.76	15.50	---	--	44.1	--	---
Sutro Mtg.	4/15	15.0	300	14.68	20.00	20.00	--	36.2	36.2	---
Wisconsin REIT	5/10	--	---	8.81	---	---	11.00	--	--	24.9

3. Finally, figure the total growth in capital from the offering. The potential increase in shares outstanding means little by itself. It is however meaningful when related to the current or potential increase in total capital available to the trustees.

For these calculations--and for most realistic analytical purposes--we lump shareholders' equity with convertible debt under the heading of "capital funds," since this is the trust's true base for borrowing from banks or through the commercial paper market. (Readers will recall that we use the same base in figuring return on equity in the Statistics section.) Again the basic data for making this calculation are found in a trust's interim or annual reports.

In the second half of the table on page 5, we have tallied capital funds before the offering, the gross amount of the offering, and the potential additional funds to be received when newly-issued warrants are exercised. In the final two columns, we show the percentage increase in capital funds, both immediately after the offering and ultimately.

Comparing the per-entage increase in shares with the increase in capital reveals that most trusts have received major increases in capital immediately while increases in shares are pushed into the future. Last year's offerings increased capital by an overall 58.4% for the 11 offerings, while this year's offerings have been slightly larger in relation to pre-offering capital, up 68.4%. As a result of the 20 offerings, the capital base of the 20 trusts has been expanded from $695 million to $1,127 million. In addition to the initial $432 million additional cap-

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NEW TRUST FINANCING

	BY INCREASES IN SHARES OUTSTANDING					BY INCREASES IN TOTAL CAPITAL				
	----------000---------- 1970					--------------Mil$--------------				
Trust	Shares Before*	Incr. Immed.	in shares & Potent.	% Incr. Immed.	Shares & Poten.	Before Capital#	Incr. Immed.	in cap. & Potent.	% Incr. Immed.	Cap. & Poten.
Alison Mtg.	935	0	- 782	0	- 83.6%	$17.31	$10.00	$2.85	57.8%	74.2%
Amer. Cent.	1,325	0	-1,352	0	-102.0	24.39	20.00	9.20	82.0	119.7
Assoc. Mtg.	1,433	0	- 100	0	7.0	32.18	10.00	2.83	31.1	39.9
Cont. Mtg.	17,239	0	-3,596	0	- 20.9	118.65	80.00	--	67.4	--
Fidelity Mt.	2,138	0	-1,189	0	- 55.6	43.60	21.60	3.85	49.5	58.4
First Mtg.	5,627	0	-1,458	0	- 25.9	92.44	35.00	--	37.9	--
First Union	2,573	1,000	-0	38.9	- 0	23.78	11.00	0	46.3	--
General Mtg.	1,000	0	- 626	0	- 62.6	13.85	5.00	1.76	36.1	48.8
Grt. Amer.	2,514	0	-1,508	0	- 51.7	25.68	26.00	4.16	101.2	117.4
Guardian MI	515	200	- 600	38.8	-155.3	11.82	20.00	0	169.2	--
Republic MI	2,517	0	-1,116	0	- 44.3	30.94	15.00	4.96	48.5	64.5
				1971						
Atico MI	2,359	0	-1,217	0	- 51.6	16.67	18.00	7.56	108.0	153.3
ConnGen. Mtg.	5,870	0	-2,308	0	- 39.3	118.98	75.00	0	63.0	--
Denver REIA	1,091	0	- 165	0	- 15.1	10.72	5.50	1.82	51.3	68.3
Galbreath	700	0	-1,126	0	-160.9	16.02	15.00	18.00a	93.7	206.0
Midland Mtg.	2,130	0	-1,200b	0	- 73.2	19.01	15.00	5.25	78.9	106.5
National MF	937	400	- 667	31.6	- 84.2	9.17	11.35	0	123.8	--
Saul (B.F.)	3,530	0	-1,097	0	- 31.1	37.99	17.00	0	44.7	--
Sutro Mtg.	1,773	0	-1,050	0	- 59.2	25.42	15.00	6.00	59.0	82.6
Wisconsin RE	797	650	-0	81.6	- 0	6.69	6.50	--	97.2	--
TOTALS	57,003	2,250	-21,157	3.9%	- 37.1%	$695.31	$431.95	$68.14	62.1%	9.8%

*Includes shares contingently issuable for conversion and warrants before offering. #Includes equity and convertible debt. a-Warrant exercise price advances to $32.00 on Feb. 1, 1973. b-Debenture holders may receive four shares in lieu of $70.00 annual interest. Data include shares potentially issuable.

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ital, the trusts stand to gain an extra $68 million when warrants are exercised, a further 9.8% gain in capital.

For the roughly 17 months covered, the trusts have thus increased total capital by 71.9% while shares outstanding will have risen by 41.1% ultimately.

For individual trusts, the convertible route has often been the quick path toward doubling capital funds available. Note that 13 of the 20 offerings have been by trusts with less than $30 million total capital--in other words, the smaller trusts who generally have a tougher time financing themselves. This partly explains why the trust convertibles have taken on such a non-standard look. It is quite likely that these trusts will have it easier the next time around. On balance, the 1970-71 round of convertibles has so far moved these 13 smaller trusts up into the next size ranking, where they may be better able to sell commercial paper and expand bank lines.

Our conclusion: The ConnGen, Great American, Galbreath and Midland financings have done the most for these trusts. And the impact has been greatest for the three smaller trusts, excluding ConnGen. Note that in all the above we have not recommended purchase of any specific convertible. Generally we view the convertibles as unattractive because purchasers are accepting a reduction in the yield they could get from buying the shares directly. This does not hold for larger institutional purchasers, who may purchase new offerings as the only way to get a significant position in an issue.

We have commented on the GAMI offering above. (Incidentally, the forthcoming Chase Manhattan offering will be in this same category, with a premium of about 90%). The Galbreath Mortgage Investments offerings is notable because it about doubles capital funds immediately and, through potential exercise of a relatively large number of warrants, could triple capital funds ultimately (a 206% increase). Thus while the conversion and exercise premiums of 24.6% and 31.1% respectively are average, the offering has moved Galbreath well up the ladder in the ranks of trusts. The Galbreath convertibles are also notable for the fact that holders may earn up to an additional 3% contingent interest over the 7% coupon, depending upon trust earnings through calendar 1975.

The Midland Mortgage Investors offering is notable for the fact that its conversion premium of 42.1% is one of the highest. In addition, the provision that debenture holders may receive four shares in lieu of their $70.00 annual interest payment is in effect the sale of shares at $17.50 per share, or a 49% premium. In our view, this is quite comparable to issuing a stock dividend (prohibited by IRS rules) at market prices instead of at book value as the Cousins Mortgage dividend reinvestment plan requires (RTR, Feb. 1). It will not be until Jan. 1, 1972, first interest payment date under the Midland plan, before we can see how the plan might work in practice, however.

FIDELITY MORTGAGE INVESTORS: INTERESTING RECOVERY PROSPECT

Fidelity Mortgage Investors, the Jacksonville, Fla. short-term trust sponsored by the Peninsular Life Insurance Co. group, is making promising progress in working back onto a growth pattern. The trust was hit almost simultaneously with several problem loans late last year, including loans to the Four Seasons Nursing Centers and and to a Seattle apartment developer who died just before two projects were to be completed. While the trust's exposure to loss of capital is virtually nil in these situations, they did have the effect of immobilizing about $4.8 million of loans on which no interest is being paid or accrued.

But now Fidelity seems to be nearing the end of its dark tunnel. A West Coast bank has re-confirmed its permanent take-out commitment on the Seattle properties and when these are completed, permanent financing will replace the $3 million of interim loans there. Fidelity also holds loans on two Four Seasons nursing centers which are operating profitably and around which the trustee hopes he can re-organize a new company. Fidelity is hopeful that interest payments may be resumed shortly.

Meantime Fidelity has signed on a new financial vice president who is expected to bolster the trust's capital raising efforts. The new man is Carey Fitzpatrick, formerly with First Mortgage Investors, who has experience with commercial paper. At the moment Fidelity is using about $21.5 million of its $30 million bank lines, which are at a relatively expensive ¼% over prime with full 20% compensating balances. But Fidelity will start issuing commercial paper within two months, thereby shaving about 3/4% off money costs. Additionally this should ultimately lead to some expansion of bank lines and a lowering of overall borrowing costs.

Portfolio growth has been modest, reaching $76.5 million at the end of April, up $15.5 million from the level last Oct. 31, the end of the fiscal year. The trust earned $0.53/share in the April quarter, flat with the previous quarter, and portfolio yield excluding the problem loans has remained high. We believe that portfolio growth can reach $100 million by the end of the fiscal year in October, and that commercial paper sales could add about $0.02/sh. to final quarter earnings. On balance we look for fiscal 1971 earnings to be in the $2.15-$2.20 range.

But removal of the drag of the Seattle loans at the beginning of fiscal 1972

should add about $0.045/share per quarter, or a prospective gain of $0.18/share for the year from that one source alone. At current prices of $20.00, Fidelity sells at a modest 3.9% premium over book value and at about 9 times our projected earnings this year. Fidelity pays a $0.50 quarterly plus an extra at the end of the year, so the yield is 10%-plus. Fidelity has the largest capital base, $63 million, of any ASE listed trust and thus is in a good position to grow much faster. We think the risk-reward ratio has shifted decisively in the shares now and are purchasing 400 shares at $20 for our Model II portfolio.

We are making no further portfolio changes at this time. With interest rates rising at the moment, we still believe portfolios should maintain a defensive stance. However, we do not believe interest rates are likely to climb back toward early 1970 levels quickly. While the air is filled with trial balloons on a second prime rate increase, we look for some stability in short-term interest rates for the near to intermediate term. And we still hold to our view that long-term rates will end the year a bit lower than they are now and perhaps even lower than the mid-March bottom.

Our defensive stance is a hedge against the possibility that interest rates may outrun our expectations. The turmoil in international monetary circles has added a new element of uncertainty, with the Federal Reserve Board likely to favor some curtailment of money supply growth to aid the international monetary position of the dollar while pressing for more fiscal measures--like moving next January's scheduled tax cut forward into this year--to boost the domestic economy. Since a great deal of fluctuation in trust share prices is due to interest rates changes--i.e., as rates go up, share prices will go down--we think the defensive stance is in order.

During the month our equity portfolio declined slightly over 2%, after credit for dividends, while the mortgage trust portfolio was hit harder. Dividends of $1,337 in this latter portfolio offset some declines but overall the group was down over 6%. Both portfolios, with an assumed $100,000 opening investment, now stand as shown below.

PORTFOLIO I ? ho

LONG TERM, INFLATION PROTECTION

Sh.	Issue-Ann. Div.	Orig. price	Mkt. 5/18	Mkt. val.
800	Gen.Growth- 0.88	$23.13	$24.25x	$19,400
400	US Lsg. RE- 1.08	22.13	19.50x	7,800
700	Penn. REIT- 0.85	12.50	12.00	8,400
750	Rlty.Inc.Tr-1.20	17.13	17.75	13,313
600	Saul (B.F.)-1.24	19.75	18.88	11,328
400	Wash. REIT -0.96	12.63	12.13	4,852
600	GREIT Rlty -1.60	18.25	19.50	11,700
200	BankAm.Rlt.-1.40	28.75	24.75	4,950
700	Mob.Hm.Com.-0.47	9.75	9.38x	6,566
300	Cabot C&F---New	22.00	21.13	6,339
	Mkt. value	$97,355*		$94,647

Cash, beginning of mon.	$ 2,645
Dividends received	341
New purchases-none	---
Cash, end of month	$ 2,986
Net asset value	$97,633

PORTFOLIO II ? ho

INTERMEDIATE TERM, AGGRESSIVE

Sh.	Issue-Ann. Div.	Orig. price	Mkt. 5/18	Mkt. val.
700	Alison Mtg.-2.16	$21.00	$19.50x	$13,650
400	Assoc.Mtg. -2.40	29.38	25.38	10,152
300	Cont.Ill. -2.40	32.12	30.13x	9,039
450	Larwin MI -2.08	24.15	23.25x	10,463
300	Diver.Mtg. -2.04	29.13	26.75	8,025
200	Guard.MI -3.04	33.50	31.88x	6,376
300	Grt.Amer.M -1.86	26.63	26.38x	7,914
200	First Mtg. -2.20	32.38	27.50	5,500
200	No.Amer.M -2.12	28.00	25.63x	5,126
100	Am. Cent. -2.12	26.00	24.00	2,400
		$86,117		$78,645
	Additions 5/18			
400	Fidelity M-$2.00	20.00	20.00	8,000
				$86,645

Cash, beginning of mon.	$13,883
Dividends received	1,337
New-incl. trans. costs	-8,123
	$ 7,097
Net asset value	$93,742

QUESTIONS OF UNIVERSAL INTEREST

Q. Since real estate investment trusts enjoyed higher earnings in recent months while industrial companies had lower profits, can we assume trusts are recession resistant?

A. Trusts generally should continue recession resistant relative to industrial corporations but much will depend on the nature of any future recession and the type of trust. The recent dip in business activity was in line with post World War II experience and mild in overall impact. On this basis, future economic downturns should not drastically curtail total construction activity. More germane to demand for construction and real estate funds is the probable rising demand for such funds over the next decade. The supply situation is changing from the past year or so when trust money represented a relatively small portion of funds available. At some future time, even a marginal demand reduction could find such funds in surplus with the resulting lending and profit curtailment for some trusts. The long-term and equity funds would likely be less affected since their returns are locked up for long periods but even they might find some participatory kickers reduced when lower business activity causes gross on properties to fall. Short-term trusts, of course, would be under some pressure as their loans rolled over in a period of less building activity. Our belief at this time, however, is that a year-to-year drop in total construction activity is not very likely in all but a severe recession over the decade. Trusts with limited geographic coverage or lending flexibility would feel even a limited slowdown if their area was hit or competition intensified.

Q. How is the international money crisis likely to affect REITS?

A. Some trusts would be affected for a limited time if interest rates rise to curtail currency outflows until they could realign lending prices to new borrowing costs. REITS may be affected indirectly by a possible shift of government spending to domestic instead of foreign areas. This might stimulate the construction area.

Q. Do larger, more prestigious trusts generally find more opportunities to earn higher returns at less risk?

A. Generally speaking, yes, the prestigious trusts get first crack at some projects by prime borrowers. But return is usually commensurate with risk and sweetheart deals are not made for high returns. The main long-term advantage the big, well connected trusts have is the liklihood of consistently finding placements. In the meantime many trusts have and are developing their own networks and strategies while the market is much bigger than the prime markets served by the large trusts. As an investor one should not minimize sponsorship for loan placement and stock market support but neither do you want to overpay for it.

Q. Can REITS indefinitely maintain outstanding growth rates or will they soon slow down.

A. In toto, we think growth will slow. This can already be seen in the sprinkling of lower quarters over the last few months. The big bottleneck to continued growth across the board at previous rates is the lack of experienced real estate personnel and loan officers to effectively put larger amounts of money to work. Many trusts, however, have the personnel, organizations and affiliations to maintain respectible growth rates.

INDUSTRY NEWS: A SEMINAR FOR POTENTIAL TRUST SPONSORS

The Practicing Law Institute is sponsoring a two-day seminar on the tax, operational, legal, and financial side of realty trust operations. A distinguished list of experts in these fields will delve into many details of starting a new trust. Two-day sessions will be held June 17-18 in New York, June 25-26 in San Francisco, and Sept. 10-11 in Atlanta. Registration is $195, including a course handbook. We are departing from our normal practice to bring you word of this seminar because we believe it may asnwer many questions some of you may have. Contact the Practicing Law Institute, 1133 Avenue of the Americas New York 10036, for further details.

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700	Penn. REIT- 0.85	12.50	12.00	8,400
750	Rlty.Inc.Tr-1.20	17.13	17.75	13,313
600	Saul (B.F.)-1.24	19.75	18.88	11,328
400	Wash. REIT -0.96	12.63	12.13	4,852
600	GREIT Rlty -1.60	18.25	19.50	11,700
200	BankAm.Rlt.-1.40	28.75	24.75	4,950
700	Mob.Hm.Com.-0.47	9.75	9.38x	6,566
300	Cabot C&F---New	22.00	21.13	6,339
	Mkt. value	$97,355*		$94,647

Cash, beginning of mon.	$ 2,645
Dividends received	341
New purchases-none	---
Cash, end of month	$ 2,986
Net asset value	$97,633

PORTFOLIO II

INTERMEDIATE TERM, AGGRESSIVE

Sh.	Issue-Ann. Div.	Orig. price	Mkt. 5/18	Mkt. val.
700	Alison Mtg.-2.16	$21.00	$19.50x	$13,650
400	Assoc.Mtg. -2.40	29.38	25.38	10,152
300	Cont.Ill. -2.40	32.12	30.13x	9,039
450	Larwin MI -2.08	24.15	23.25x	10,463
300	Diver.Mtg. -2.04	29.13	26.75	8,025
200	Guard.MI -3.04	33.50	31.88x	6,376
300	Grt.Amer.M -1.86	26.63	26.38x	7,914
200	First Mtg. -2.20	32.38	27.50	5,500
200	No.Amer.M -2.12	28.00	25.63x	5,126
100	Am. Cent. -2.12	26.00	24.00	2,400
		$86,117		$78,645
	Additions 5/18			
400	Fidelity M-$2.00	20.00	20.00	8,000
				$86,645

Cash, beginning of mon.	$13,883
Dividends received	1,337
New-incl. trans. costs	-8,123
	$ 7,097
Net asset value	$93,742

QUESTIONS OF UNIVERSAL INTEREST

Q. Since real estate investment trusts enjoyed higher earnings in recent months while industrial companies had lower profits, can we assume trusts are recession resistant?

A. Trusts generally should continue recession resistant relative to industrial corporations but much will depend on the nature of any future recession and the type of trust. The recent dip in business activity was in line with post World War II experience and mild in overall impact. On this basis, future economic downturns should not drastically curtail total construction activity. More germane to demand for construction and real estate funds is the probable rising demand for such funds over the next decade. The supply situation is changing from the past year or so when trust money represented a relatively small portion of funds available. At some future time, even a marginal demand reduction could find such funds in surplus with the resulting lending and profit curtailment for some trusts. The long-term and equity funds would likely be less affected since their returns are locked up for long periods but even they might find some participatory kickers reduced when lower business activity causes gross on properties to fall. Short-term trusts, of course, would be under some pressure as their loans rolled over in a period of less building activity. Our belief at this time, however, is that a year-to-year drop in total construction activity is not very likely in all but a severe recession over the decade. Trusts with limited geographic coverage or lending flexibility would feel even a limited slowdown if their area was hit or competition intensified.

Q. How is the international money crisis likely to affect REITS?

A. Some trusts would be affected for a limited time if interest rates rise to curtail currency outflows until they could realign lending prices to new borrowing costs. REITS may be affected indirectly by a possible shift of government spending to domestic instead of foreign areas. This might stimulate the construction area.

Q. Do larger, more prestigious trusts generally find more opportunities to earn higher returns at less risk?

A. Generally speaking, yes, the prestigious trusts get first crack at some projects by prime borrowers. But return is usually commensurate with risk and sweetheart deals are not made for high returns. The main long-term advantage the big, well connected trusts have is the liklihood of consistently finding placements. In the meantime many trusts have and are developing their own networks and strategies while the market is much bigger than the prime markets served by the large trusts. As an investor one should not minimize sponsorship for loan placement and stock market support but neither do you want to overpay for it.

Q. Can REITS indefinitely maintain outstanding growth rates or will they soon slow down.

A. In toto, we think growth will slow. This can already be seen in the sprinkling of lower quarters over the last few months. The big bottleneck to continued growth across the board at previous rates is the lack of experienced real estate personnel and loan officers to effectively put larger amounts of money to work. Many trusts, however, have the personnel, organizations and affiliations to maintain respectible growth rates.

INDUSTRY NEWS: A SEMINAR FOR POTENTIAL TRUST SPONSORS

The Practicing Law Institute is sponsoring a two-day seminar on the tax, operational, legal, and financial side of realty trust operations. A distinguished list of experts in these fields will delve into many details of starting a new trust. Two-day sessions will be held June 17-18 in New York, June 25-26 in San Francisco, and Sept. 10-11 in Atlanta. Registration is $195, including a course handbook. We are departing from our normal practice to bring you word of this seminar because we believe it may asnwer many questions some of you may have. Contact the Practicing Law Institute, 1133 Avenue of the Americas New York 10036, for further details.